

December 2001

Special Announcement

Deferred Compensation Plan Changes For 2002

Below is a summary of important changes to the Montgomery County Deferred Compensation Plan made possible by the recent enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). *While EGTRRA allows a January 1, 2002 effective date for many of these new provisions, their availability to participants in the Montgomery County Deferred Compensation Plan is subject to amendment of the official Plan Document and, in some cases, the implementation of appropriate supporting systems.* Those changes that may be impacted are noted.

An updated Deferred Compensation ***HR Topics*** booklet is available in the Office of Human Resources, 7th floor, EOB. It is also available in OHR's on-line Resource Library on OHR's Home Page. Please read this booklet and the summary information below carefully before enrolling in the Deferred Compensation Plan or making changes to your elections.

The current Open Season for Deferred Compensation begins December 3, 2001 and ends December 31, 2001. Elections received in the Office of Human Resources by December 14, 2001, will be reflected in the January 11, 2002 paycheck. Elections received after that date and through December 31, 2001 will be reflected in the January 25, 2002 paycheck.

Please note: The Montgomery County Deferred Compensation Plan Joinder Agreement and Change Form contains plan provisions as of 2001 and does not reflect the information summarized below. However, you may continue to use the form to enroll, change providers, change beneficiaries, change contribution amounts and stop contributions.

Deferred Compensation Plan Changes For 2002 (continued)

New contribution limits for 2002:

The maximum contribution limit is \$11,000 for calendar year 2002, or 100% of your includible compensation, whichever is less. The \$11,000 contribution limit will increase by \$1,000 per year to a limit of \$15,000 in 2006. The limit will be indexed for inflation in \$500 increments after 2006. (The calendar year 2001 contribution limit is \$8,500, or 33 1/3% of your includible compensation.)

New “catch-up” provisions for 2002:

Beginning in 2002, there are two different catch-up elections available to participants.

Option #1 -- Last Three Years Catch-up

During the last three taxable years ending before the year in which you attain normal retirement age, your contribution amount may be increased to the lesser of the following amounts:

1. Double the applicable normal contribution limit for the year. For example, 2 times \$11,000 or \$22,000 in 2002, 2 times \$12,000 or \$24,000 in 2003, and so forth. (Before 2002, this amount was limited to \$15,000.)
2. The amount of unused normal contribution limits for all prior years you were eligible for this Plan.

This catch-up can only be used in the last three years ending before normal retirement age under this Plan, and can never be used again.

How to Apply for Last Three Years Catch-up

You may apply for this catch-up provision by contacting the Benefits Team, Office of Human Resources at 240-777-5000. If you are currently participating in catch-up under the overall \$15,000 limit and have remaining eligibility for years 2002 or 2003, you may apply to convert to an increased amount by contacting the Benefits Team. The Benefits Team will be able to automatically approve requests that do not exceed \$2,500 more than your already approved overall limit.

For example, if you are already approved for catch-up in 2002 and your approved overall limit is \$15,000, upon request, the Benefits Team will be able to approve an increase of up to \$17,500

Deferred Compensation Plan Changes For 2002 (continued)

automatically. Increases greater than \$2,500 will require additional research of your contribution history.

Option #2 -- Age 50 Catch-up

As an alternative, if you are (or will be during 2002) age 50 or older, you are eligible to automatically make contributions in excess of the normal contribution limit for a calendar year. The additional amount of contribution for the new “age 50 catch-up” will be \$1,000 in 2002.

Therefore, if you are age 50 or older, you may contribute up to \$12,000 in 2002 - \$11,000 under the normal contribution limit and up to \$1,000 in age 50 catch-up amounts. The age 50 catch-up amount will increase by \$1,000 per year to \$5,000 in 2006. The amount will be indexed for inflation in \$500 increments after 2006.

No special application is required to participate in the age 50 catch-up. If you are 50 or older, simply consider your overall contribution limit for the year as the normal contribution limit plus the special age 50 catch-up amount. Remember, in 2002, that overall limit would be \$12,000 - \$11,000 under the normal contribution limit plus \$1,000 under age 50 catch-up.

Please note that you cannot use the “age 50 catch-up” in any year in which the “last three years catch-up” applies.

New rollover rules for 2002:

Please note that these new rollover provisions will not be effective until amendment of the official Plan Document and the implementation of supporting record-keeping procedures by the service providers. The Office of Human Resources will issue an announcement when the new rollover provisions become available to Plan participants.

You may roll over account balances from another governmental Section 457 deferred compensation plan, if that plan permits transfers. Beginning in 2002, you may also roll over eligible rollover distributions from a qualified 401 plan, a 403(b) plan, or traditional IRA.

Only funds that qualify as an “eligible rollover distribution,” as defined by the Internal Revenue Code, may be rolled over. This generally includes lump-sum distributions, and distributions in installments of less than 10 years. It does not include annuity payments or minimum required distributions after age 70 ½.

Deferred Compensation Plan Changes For 2002 (continued)

Amounts rolled over will be treated as if they had originally been deferred under the County's Plan, and all County Plan provisions will apply to those account balances rolled over.

New distribution rules for 2002:

Please note that these distribution rules apply to plan participants who retire or separate from County employment after December 31, 2001. For those participants who retire or separate prior to January 1, 2002, the Office of Human Resources will work with the plan service providers to inform such participants of their options available under EGTRRA.

On separation from employment or retirement from Montgomery County, you may choose to:

- Maintain your account in the Plan; or
- Withdraw all or a portion of your account immediately or through a systematic withdrawal program or annuity option; or
- Roll over your account balances to another eligible retirement plan, such as a governmental 457 plan, a 403(b) plan, a qualified 401 plan, or a traditional IRA *(provided the receiving plan accepts such distributions)*.

More Information:

HR Topics booklet on Deferred Compensation, available on line in OHR's Resource Library at:

<<http://portal.mcgov.org>> (Click on Human Resources, Resource Library, FAQs, HR Topic: Deferred Compensation)

or

<http://www.emontgomery.org/ohr/index_frameset.htm> (Click on Resource Library, FAQs, HR Topic: Deferred Compensation)

This booklet is also available on paper in OHR, EOB 7th floor.

f.y.i. is published occasionally by the Office of Human Resources. Comments and suggestions are welcome. Contact <ohr@www.co.mo.md.us>. This information can also be made available in an alternate format, if necessary.

